

Message Text

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21

ACTION NEA-10

INFO OCT-01 ISO-00 AGR-05 AID-05 EB-07 IO-13 USIA-06

COME-00 TRSE-00 PM-04 NSC-05 SP-02 SS-15 CIAE-00

INR-07 NSAE-00 DODE-00 /080 W

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R 281512Z APR 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 2514

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EO 11652: NA

TAGS: ECON EG

SUBJECT: REDUCTION OF GOVERNMENT SUBSIDIES

1. HIGHER PLANNING COMMITTEE, UNDERCHAIRMANSHIP PRIME
MINISTER MAMDUH SALEM DUE TO TAKE UP QUESTION OF REDUCTION
OF GOVERNMENT COMMODITY SUBSIDIES APRIL 28. PM SALEM
MADE REPORT ON PLANNED DISCUSSION TO PRESIDENT SADAT
APRIL 27, PRESUMABLY TO GAIN PRESIDENTIAL APPROVAL FOR
PROPOSALS.

2. ACCORDING TO PRESS APRIL 24, GOVERNMENT PROPOSES
REDUCE TOTAL SUBSIDY BILL BY 100 MILLION POUNDS (TOTAL PROJECTD
1976 SUBSIDY FIGURE WAS 650 MILLION POUNDS). GOVERNMENT
ADDS THAT MEASURES WILL NOT AFFECT LOW INCOME CITIZENS.

3. ALTERNATIVES FOR REDUCING SUBSIDIES ARE DESCRIBED AS
FOLLOWS:

(A) WITHDRAW RATION CARDS FROM HIGH INCOME CITIZENS, THUS
SPREADING USE OF TWO PRICE SYSTEM FOR COMMODITIES AND
DROPPING SOME COMMODITES USED BY HIGH INCOME GROUP
FROM LIST OF SUBSIDIZED LIST. HIGH INCOME CITIZENS DESCRIBED
AS THOSE WHO ARE SUBJECT TO INCOME TAX PROVISIONS, I.E.,
THOSE WHO EARN MORE THAN 1,200 POUNDS ANNUALLY. MANY
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OPPOSE THIS BECAUSE IT PUNISHES THOSE WHO PAY TAXES AND

REWARDS THOSE WHO DO NOT.

(B) ABOLISH SUBSIDIES ENTIRELY AND DISTRIBUTE FUNDS AS COST OF LIVING ALLOWANCES TO GOVERNMENT EMPLOYEES. ARGUMENTS AGAINST THIS ARE THAT THOSE WHO WOULD SUFFER MOST ARE NON-GOVERNMENT EMPLOYEES AND PENSIONERS.

(C) KEEP ONLY A CERTAIN NUMBER OF ESSENTIAL COMMODITIES ON RATION LIST SUCH AS TEA AND SUGAR AND ALLOW ALL OTHER COMMODITIES TO BE SOLD AT FREE MARKET PRICES.

4. SEVERAL OTHER MEASURES ARE DESCRIBED AS HAVING BEEN AGREED UPON. THEY ARE:

(A) ABOLISHING SUBSIDY ON SUGAR USED BY BAKERIES,

(B) ABOLISHING SUBSIDIES ON FOOD USED IN HOTELS,

(C) DISTRIBUTING SOME COMMODITIES SUCH AS MEAT AND CHICKEN ON A RATION SYSTEM FOR LOW INCOME GROUP.

5. COMMENT. GOE CLEARLY PREPARING POPULATION FOR SOME CHANGE IN CURRENT SUBSIDY LEVELS. FACT THAT ASSURANCES AND CONDITIONS ARE BEING MADE ESPECIALLY FOR LOWER INCOME GROUP IS EVIDENCE OF POLITICAL SENSITIVITY THIS SUBJECT. LOWER MIDDLE INCOME GROUP WHO ARE INCREASING INCOME AS RESULT OPEN DOOR POLICIES SEEM TO BE SLATED TO TAKE BRUNT OF THESE MEASURES.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMMODITIES, SUBSIDIES
Control Number: n/a
Copy: SINGLE
Draft Date: 28 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: RowellE0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976CAIRO05750
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760162-0551
From: CAIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760412/aaaaajlk.tel
Line Count: 90
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: RowellE0
Review Comment: n/a
Review Content Flags:
Review Date: 08 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 JUN 2004 by BoyleJA>; APPROVED <21 OCT 2004 by RowellE0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REDUCTION OF GOVERNMENT SUBSIDIES
TAGS: ECON, EG
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006